
BITTERROOT RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2008 AND 2007



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Bitterroot Resources Ltd.

We have audited the consolidated balance sheets of Bitterroot Resources Ltd. as at October 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

February 23, 2009

BITTERROOT RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

OCTOBER 31	2008	2007
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	381,957	3,094,703
Accounts receivable - other (Note 3 (g)) (Note 16)	1,275,284	335,826
Prepaid expenses	21,407	2,656
	<u>1,678,648</u>	<u>3,433,185</u>
Reclamation Deposit	15,800	13,300
Resource Properties (Note 3)	13,887,432	10,520,700
Equipment (Note 4)	14,020	18,954
	<u>15,595,900</u>	<u>13,986,139</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	401,143	307,802
Future Income Taxes (Note 10)	790,749	393,165
	<u>1,191,892</u>	<u>700,967</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	18,467,531	17,107,923
Contributed Surplus (Note 6)	2,641,647	2,236,730
Deficit	(6,705,170)	(6,059,481)
	<u>14,404,008</u>	<u>13,285,172</u>
	<u>15,595,900</u>	<u>13,986,139</u>

Continuing Operations (Note 1)
Commitments (Note 15)
Subsequent Events (Note 16)

Approved by directors:

"Michael S. Carr"
Michael S. Carr, Director

"George W. Sanders"
George W. Sanders, Director

The accompanying notes are an integral part of these consolidated financial statements.

BITTERROOT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS
AND DEFICIT

(Expressed in Canadian Dollars)

YEARS ENDED OCTOBER 31	2008	2007
	\$	\$
Expenses		
Amortization	4,934	5,074
Foreign exchange loss (gain)	(19,263)	39,927
Interest and bank charges	3,927	3,391
Management fees	96,000	96,000
Office and printing	101,921	112,191
Professional fees	116,827	102,460
Property investigation	78,146	7,264
Regulatory fees	9,677	10,862
Shareholder information	11,636	23,692
Stock-based compensation (Note 7)	351,498	621,169
Transfer agent fees	14,742	18,013
Loss Before Other Items and Income Taxes	(770,045)	(1,040,043)
Other Items		
Interest income	87,508	125,461
Write-off of resource properties	(64,850)	(54,740)
	22,658	70,721
Loss Before Income Taxes	(747,387)	(969,322)
Future income tax recovery (Note 10)	101,698	309,066
Net Loss and Comprehensive Loss for the Year	(645,689)	(660,256)
Deficit, beginning of year	(6,059,481)	(5,399,225)
Deficit, End of Year	(6,705,170)	(6,059,481)
Basic and Diluted Loss Per Share	(0.01)	(0.01)
Weighted Average Number Of Shares Outstanding	56,547,225	48,910,569

The accompanying notes are an integral part of these consolidated financial statements.

BITTERROOT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

YEARS ENDED OCTOBER 31	2008	2007
	\$	\$
Operating Activities		
Net loss for the year	(645,689)	(660,256)
Items not involving cash:		
Amortization	4,934	5,074
Write-off of resource properties	64,848	54,740
Future income tax recovery	(101,698)	(309,066)
Stock-based compensation	351,498	621,169
	<u>(326,107)</u>	<u>(288,339)</u>
Changes in non-cash working capital:		
Accounts receivable - other	(627,507)	(119,958)
Prepaid expenses	(18,751)	1,980
Accounts payable and accrued liabilities	93,341	109,704
	<u>(552,917)</u>	<u>(8,274)</u>
Cash used in operating activities	<u>(879,024)</u>	<u>(296,613)</u>
Financing Activity		
Share issuances, net of share issue costs	1,912,309	5,682,829
Investing Activities		
Increase in reclamation deposits	(2,500)	(4,000)
Purchase of equipment	-	(10,979)
Resource property expenditures, net of recoveries	(3,743,531)	(3,680,246)
Cash used in investing activities	<u>(3,746,031)</u>	<u>(3,695,225)</u>
Increase (Decrease) in Cash During the Year	(2,712,746)	1,690,991
Cash and cash equivalents, beginning of year	<u>3,094,703</u>	<u>1,403,712</u>
Cash and Cash Equivalents, End of Year	381,957	3,094,703

Supplemental Disclosure With Respect to Cash Flows

	2008	2007
	\$	\$
Cash paid during the year for interest	-	-
Cash paid during the year for income taxes	-	-

The accompanying notes are an integral part of these consolidated financial statements.

BITTERROOT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007
(Expressed in Canadian Dollars)

1. Continuing Operations

Bitterroot Resources Ltd. (the "Company"), incorporated in British Columbia, is a public company listed on the TSX Venture Exchange.

The Company is in the exploration stage and its principal business activity is the sourcing and exploration of resource properties.

At October 31, 2008, the Company was in the process of exploring its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof.

The Company incurred a loss of \$645,689 for the year ended October 31, 2008 (2007 - \$660,256), and had a deficit of \$6,705,170 at October 31, 2008 (2007 - \$6,059,481) which has been funded primarily by the issuance of equity. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing, and generating revenues sufficient to cover its operating costs.

These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated balance sheets.

2. Significant Accounting Policies

To facilitate review of these financial statements, the significant accounting policies followed by the Company are summarized below:

(a) Basis of Presentation and Consolidation

These consolidated financial statements include the accounts of the Company, which is incorporated under the laws of British Columbia, and its wholly-owned subsidiaries, Trans Superior Resources, Inc. and Voyageur Lands Corporation, both of which are Michigan, USA corporations. All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to resource properties, determination of a valuation allowance for future income tax assets, and to the valuation of stock-based compensation. Management believes the estimates are reasonable.

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2. Significant Accounting Policies (*Cont'd*)

(c) Resource Properties

The company accounts for resource properties in accordance with the Canadian Institute of Chartered Accountants Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and EIC abstract 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC 126") of the Emerging Issues Committee. CICA 3061 provides for the capitalization of the acquisition and exploration costs of a mining property where such costs are considered to have the characteristics of property, plant and equipment. EIC 126 provides that a mining enterprise is not precluded from considering exploration costs to have the characteristics of property, plant and equipment when it has not established mineral reserves objectively and, therefore, does not have a basis for preparing a projection of the estimated future net cash flow from the property.

Resource properties include initial acquisition costs and related option payments, which are recorded when paid. Exploration and development costs are capitalized until properties are brought into production, at which time costs are amortized on a unit of production basis over economically recoverable reserves. Option payments and cost recoveries are credited against resource property costs when received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received.

CICA 3061 also provides that property, plant and equipment be written down when the long-term expectation is that the net carrying amount will not be recovered. EIC 126 states that a mining enterprise which has not objectively established mineral reserves and, therefore, does not have a basis for preparing a projection of the estimated future cash flow from a property is not obliged to conclude that the capitalized costs have been impaired.

However, EIC 126 references certain conditions that should be considered in determining subsequent write-downs, such as changes or abandonment of a work program or poor exploration results, and management reviews such conditions to determine whether a write-down of capitalized costs is required. When the carrying value of a property exceeds its net recoverable amount, provision is made for the impairment in value.

(d) Equipment

Equipment is recorded at cost, including betterment and renewals subsequent to acquisition, less accumulated amortization. When equipment is sold or abandoned, the recorded costs and related accumulated amortization are removed from the accounts and any gains or losses are included in the determination of net earnings. Repairs and maintenance are recorded as an expense as incurred.

Amortization is calculated on the declining balance method at the following rates per annum:

Computer hardware	- 30%
Furniture and fixtures	- 20%
Leasehold improvements	- 20%
Field equipment	- 30%

The Company reviews the carrying value of equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the estimate of undiscounted future cash flows from the asset. At that time, the carrying amount is written down to fair value.

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2. Significant Accounting Policies *(Cont'd)*

(e) Foreign Currency Translation

The accounts of the non-Canadian subsidiary, which is considered to be dependent on the Company, and transactions of Canadian operations denominated in foreign currencies are translated to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at current rates of exchange and other assets and liabilities are translated at historical rates of exchange. Revenues and expenses are translated at average rates of exchange for the year, except for amortization which is translated at rates in effect when the related assets were acquired. All exchange gains and losses are recognized currently in earnings.

(f) Earnings (Loss) Per Share

The Company uses the treasury stock method in computing earnings (loss) per share. Under this method, basic earnings (loss) per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the year.

For years ended October 31, 2008 and 2007, the existence of warrants and options affect the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share, fully diluted loss per share information has not been shown.

(g) Stock-Based Compensation Plan

The Company has a stock-based compensation plan which is described in Note 7.

The Company follows the CICA's Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

Stock options are recorded at their fair value on the date of grant over their vesting period as compensation cost. Broker options and broker warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs with a corresponding credit to contributed surplus. On the exercise of stock options, broker options and broker warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when temporary differences are recovered or settled. The effect on future tax assets and liabilities of changes in tax rates is recognized in income in the period that substantive enactment occurs.

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2. Significant Accounting Policies *(Cont'd)*

(i) Flow-Through Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related exploration expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

The Company follows the recommendations of EIC-146 with respect to flow-through shares. The application of EIC-146 requires the recognition of the foregone tax benefit on the date the Company renounces the tax credits associated with the exploration expenditures, provided there is reasonable assurance that the expenditures will be made.

(j) Asset Retirement Obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations". This standard requires liability recognition for retirement obligations associated with the Company's resource properties. The standard requires the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statements of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties. For the years ended October 31, 2008 and 2007 the Company did not identify any asset retirement obligations.

(k) Cash And Cash Equivalents

Cash and cash equivalents are highly liquid investments and are readily convertible to contracted amounts of cash.

(l) Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities, in accordance with CICA Handbook Section 3855. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

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2. Significant Accounting Policies *(Cont'd)*

(m) Comprehensive Income

In accordance with CICA Handbook Section 1530, comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. In the year ended October 31, 2008, there was no other comprehensive income.

(n) Hedges

The Company follows CICA Handbook Section 3865 which specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The company has not designated any hedging relationships.

(o) Changes in Accounting Policy

Effective November 1, 2007, the Company adopted the following accounting standards updates issued by the Canadian Institute of Chartered Accountants ("CICA").

(i) Capital Disclosures - Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(ii) Financial Instruments Disclosures and Presentation – Sections 3862 & 3863

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

(p) New Accounting Pronouncements

Effective November 1, 2008, the Company is required to adopt the following accounting standards updates issued by the CICA:

(i) Assessing Going Concern – Section 1400

The Accounting Standards Board amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

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2. Significant Accounting Policies *(Cont'd)*

(p) New Accounting Pronouncements *(Cont'd)*

(ii) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064 which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, Revenue and Expenditures in the Pre-Operating Period" will be withdrawn.

The Company is currently assessing the impact of these new accounting standards on the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

BITTERROOT RESOURCES LTD.
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3. Resource Properties

	GK Property B.C., Canada	Mineral Creek Property B.C., Canada	North Brenda Property B.C., Canada	SPN Property B.C., Canada	Big Southeaster Property B.C., Canada	Sk / Man Coal Property, Canada	Michigan Lands Michigan, USA	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance - October 31, 2006	1,160,279	2,091,699	476,863	-	41,752	-	2,755,673	6,526,266
Deferred Costs During the Year								
Acquisition costs	30,000	71,000	33,500	40,000	29,500	-	-	204,000
Aircraft charter	-	-	45,917	-	-	-	-	45,917
Claims, leases and permits	5,388	6,125	3,956	4,005	2,904	-	81,635	104,013
Consulting and professional	231,346	110,947	156,449	67,714	135,418	-	93,138	795,013
Drilling	393,508	41,335	666,497	-	1,020,052	-	191,690	2,313,081
Field supplies	14,392	12,854	6,662	5,859	1,083	-	7,514	48,364
Fuel	12,071	1,670	2,288	1,591	14,628	-	25	32,273
Geochemistry	167,370	11,976	59,676	57,725	45,596	-	22,655	364,998
Geophysics	55,795	-	5,000	24,823	-	-	22,755	108,373
Ground transportation	16,466	6,453	20,745	5,764	19,677	-	18,387	87,429
Other	12,874	13,419	6,992	2,927	2,990	-	8,945	48,147
Recovery of costs	-	-	-	-	-	-	(483,947)	(483,947)
Room and board	21,036	9,670	14,716	10,192	36,419	-	7,943	99,976
Stock-based compensation	36,410	36,378	27,647	-	45,140	-	29,102	174,677
Travel and freight	4,868	321	2,604	1,695	4,521	-	12,698	26,707
Trenching	25,350	-	-	-	-	-	-	25,350
	1,026,874	322,148	1,052,649	222,295	1,357,928	-	12,540	3,994,435
Balance - October 31, 2007	2,187,153	2,413,847	1,529,512	222,295	1,399,680	-	2,768,213	10,520,700
Deferred Costs During the Year								
Acquisition costs	25,000	28,000	15,000	13,000	20,000	-	-	101,000
Aircraft charter	-	-	-	-	-	12,341	-	12,341
Claims, leases and permits	18,151	55,305	1,100	8,688	49,586	14,880	12,057	159,767
Consulting and professional	170,015	137,720	134,229	143,059	92,031	25,224	350,917	1,053,195
Drilling	411,589	856,531	9,672	-	196,288	-	313,812	1,787,892
Field supplies	6,725	73,325	2,022	1,025	659	284	37,841	121,881
Fuel	11,329	20,689	993	-	8,633	-	11,043	52,687
Geochemistry	39,825	23,583	41,743	32,064	35,286	-	-	172,501
Geophysics	-	57,307	115,422	88,331	57,307	-	42,503	360,870
Ground transportation	6,007	11,448	4,751	2,217	4,338	597	31,457	60,815
Other	5,453	34,681	9,541	5,244	4,698	305	62,585	122,507
Recovery of costs	(28,451)	(229,630)	(58,569)	-	(792)	-	(436,596)	(754,038)
Room and board	15,143	22,632	578	9,871	5,445	853	33,468	87,990
Stock-based compensation	15,279	1,389	15,279	-	1,389	8,910	2,673	44,919
Travel and freight	6,299	3,540	2,993	582	3,302	1,456	4,415	22,587
Trenching	24,668	-	-	-	-	-	-	24,668
	727,032	1,096,520	294,754	304,081	478,170	64,850	466,175	3,431,582
	2,914,185	3,510,367	1,824,266	526,376	1,877,850	64,850	3,234,388	13,952,282
Write-off of resource properties	-	-	-	-	-	(64,850)	-	(64,850)
Balance - October 31, 2008	2,914,185	3,510,367	1,824,266	526,376	1,877,850	-	3,234,388	13,887,432

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3. Resource Properties *(Cont'd)*

Title to resource properties involves certain inherent risks due to difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to its resource properties and to the best of its knowledge, title to its properties are in good standing.

(a) Michigan Lands, Michigan, U.S.A.

(i) Mineral Rights

The Company owns a 100% interest in mineral rights covering approximately 363 square miles in the Upper Peninsula of Michigan, U.S.A. On approximately 106 square miles, the vendor retains a 2% net smelter return royalty (NSR) and the Company has the option to purchase one half of the total 2% NSR royalty by paying \$1,000,000 U.S. on or before December 31, 2048.

On February 18, 2003, the Company entered into an option agreement with Cameco Corporation whereby the Company granted to Cameco the option to acquire a 65% interest in certain Michigan mineral rights within a 56 square mile area of interest. To earn this interest Cameco has incurred \$600,000 of exploration expenditures and must incur an additional \$1,000,000 of exploration expenditures within this area prior to June 30, 2009. Subsequent to the year-end, Cameco completed its funding obligations and was deemed to have acquired a 65% interest in the project area (Note 16). Cameco and Bitterroot also jointly retain the right to acquire 50 percent of each other's interest in an adjoining 184 square mile area of interest by refunding 100 percent of any land acquisition cost incurred.

(ii) State Leases

At October 31, 2008, the Company held leases covering approximately 7,389 acres of State of Michigan mineral rights. State leases are subject to a sliding scale production royalty ranging from 2% to 10.5%, or to a net smelter returns royalty, the terms of which are negotiated on a case-by-case basis. In order to maintain the leases in good standing, the Company must make aggregate rental payments of \$193,023 through February 28, 2014. Minimum rental payments due in the next five years are as follows:

	\$
2009	25,927
2010	20,127
2011	20,567
2012	39,934
2013	40,134

During the year ended October 31, 2008, the Company incurred exploration expenditures of \$902,771 relating to the Michigan properties and received and/or accrued recoveries of \$436,596.

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3. Resource Properties *(Cont'd)*

(b) GK Property, B.C., Canada

The Company owns a 100% interest in the GK Property located east of the town of Beaverdell, British Columbia. In order to earn this interest, the Company has issued 300,000 common shares at a value of \$85,000, and made payments totaling \$85,000 within a three year period. The vendors retain a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures of \$755,483 relating to the GK property and accrued recoveries of \$28,451.

(c) Mineral Creek Property, B.C., Canada

On May 1, 2005, the Company entered into an option agreement with Mineral Creek Ventures Inc. whereby Bitterroot can earn up to a 75% interest in the Mineral Creek Property, located near Port Alberni, B.C. The Company has since earned a 55% interest in the property by completing exploration expenditures of \$1,200,000, issuing 450,000 common shares and making cash payments totaling \$160,000. To earn an additional 20% interest in the property the Company has paid an additional \$50,000, completed further exploration expenditures of \$800,000 and issued 100,000 common shares. Subsequent to year end, the Company made final cash payment of \$50,000, and issued 100,000 common shares to complete the 75% earn-in (Note 16). In addition, the Company owns a 75% interest in four adjoining mineral claims.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures of \$1,326,150 relating to the Mineral Creek property and received and/or accrued recoveries of \$229,630.

(d) North Brenda Property, B.C., Canada

On April 4, 2006, the Company entered into an agreement to acquire a 100% interest in the North Brenda molybdenum/copper/gold property in southwestern British Columbia. In order to earn this interest in the property, the Company paid \$10,000, completed \$50,000 of exploration expenditures and issued 150,000 common shares at a value of \$78,000 to the vendors within a two year period. Prior to the third anniversary, the Company is required to issue common shares with a value of \$50,000. The vendors will also retain a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures of \$353,323 relating to the North Brenda property and accrued recoveries of \$58,569.

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3. Resource Properties *(Cont'd)*

(e) SPN Property, B.C., Canada

On December 29, 2006, the Company entered into an agreement to acquire a 100% interest in the SPN claims, which are located approximately 20 kilometres southeast of Barriere, B.C. In order to earn this interest, the Company paid \$10,000 and issued 100,000 common shares. Prior to the second anniversary, the Company is required to issue an additional 50,000 common shares (issued subsequent to year end). Prior to the third anniversary, the Company is required to issue common shares with a value of \$50,000. The vendor will also retain a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures of \$304,081 relating to the SPN property.

(f) Big Southeaster Property, B.C., Canada

On June 1, 2006, the Company entered into an agreement to acquire a 100% interest in the Big Southeaster property which adjoins the south side of the Mineral Creek property. In order to earn this interest in the claims, the Company paid \$10,000, completed \$50,000 of exploration expenditures and issued 150,000 shares within a two year period. Prior to the third anniversary, the Company is required to issue common shares with a value of \$50,000. The vendors will also retain a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures of \$478,962 relating to the Big Southeaster property and accrued recoveries of \$792.

(g) Saskatchewan / Manitoba Coal Property, Canada

During the year ended October 31, 2008, the Company submitted and then subsequently withdrew applications for Quarry (Coal) Exploration Permits covering approximately 26,000 hectares in the Province of Manitoba. The Quarry (Coal) Exploration Permit applications were withdrawn to eliminate the associated near-term exploration funding obligations and conserve the Company's cash reserves during this period of unprecedented declines in resource equity markets. Consequently, all project costs were written off. Bitterroot will retain its recently issued Coal Prospecting Permits covering 1,248 hectares in eastern Saskatchewan.

During the year ended October 31, 2008, the Company incurred acquisition and exploration expenditures, net of the Manitoba Quarry Exploration Permit refund of \$64,850 relating to the Saskatchewan / Manitoba Coal Project, which were subsequently written off.

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4. Equipment

	2008		2007	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Computer hardware	9,396	8,099	1,297	1,853
Field equipment	28,095	21,390	6,705	9,579
Furniture and fixtures	8,350	2,624	5,726	7,157
Leasehold improvements	5,655	5,363	292	365
	51,496	37,476	14,020	18,954

5. Share Capital

(a) Authorized

The authorized share capital consists of 100,000,000 common shares without par value.

(b) Common Shares Issued

	Number Of Shares	Amount \$
Balance - October 31, 2006	42,071,343	11,824,852
Issued for cash		
Exercise of stock options	245,000	59,459
Pursuant to private placements	9,970,512	5,733,598
Exercise of broker options	391,100	288,951
Resource property option payments	250,000	164,000
Share issue costs	-	(239,706)
Share subscriptions receivable	-	(21,000)
Future income taxes on expenditures renounced to shareholders	-	(702,231)
Balance - October 31, 2007	52,927,955	17,107,923
Issued for cash		
Exercise of stock options	135,000	49,115
Pursuant to private placements	5,097,000	1,804,950
Exercise of warrants	135,000	67,500
Resource property option payments	250,000	76,000
Mineral claim payments	50,000	16,500
Share issue costs	-	(155,175)
Future income taxes on expenditures renounced to shareholders	-	(499,282)
Balance - October 31, 2008	58,594,955	18,467,531

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5. Share Capital *(Cont'd)*

(b) Common Shares Issued *(Cont'd)*

During the year ended October 31, 2008, the Company issued common shares pursuant to the following:

- (i) On March 14, 2008, the Company issued 5,097,000 flow-through common shares priced at \$0.35 per share. Finder's fees of \$84,000 plus 240,000 non-transferable broker warrants to purchase common shares at \$0.35, expiring March 14, 2010, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$35,265 and was recorded as a share issue cost.

During the year ended October 31, 2007, the Company issued common shares pursuant to the following:

- (i) On November 17, 2006, the Company issued 4,600,001 units priced at \$0.55 per unit. Each unit consists of one common share and one-half of a common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share of the Company at \$0.80, expiring November 17, 2008. A finder's fee of \$20,000 was paid in conjunction with the private placement.
- (ii) On December 20, 2006, the Company issued 1,203,164 flow-through common shares priced at \$0.75 per share. Finder's fees of \$23,750 were paid in conjunction with the private placement.
- (iii) On June 7, 2007, the Company issued 2,106,633 flow-through common shares priced at \$0.75 per share. Finder's fees of \$92,998 plus 123,998 non-transferable broker warrants to purchase one common share at \$0.75, expiring June 7, 2008 were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$21,748, and was recorded as a share issuance cost.
- (iv) On October 25, 2007, the Company issued 2,060,714 units priced at \$0.35 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional share of the company at a \$0.50, expiring October 5, 2009.

The following weighted average assumptions were used for the Black-Scholes valuation of broker warrants:

	2008	2007
Volatility	63%	75%
Risk-free interest rate	2.43%	4.67%
Dividend yield	-	-
Expected life	2 years	1 year

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5. Share Capital (Cont'd)

(b) Common Shares Issued (Cont'd)

Flow through shares - Of the shares issued during fiscal 2008, 5,097,000 were issued on a flow through basis whereby the Company must spend \$1,783,950 on Canadian exploration expenditures ("CEE") and renounce these expenditures to shareholders over two years.

Of the shares issued during fiscal 2007, 3,309,797 were issued on a flow through basis whereby the Company was required to spend \$2,482,332 on CEE and renounce these expenditures to the shareholders over two years. All required expenditures and renunciations were made during fiscal 2008.

(c) Warrants

Warrant transactions are summarized as follows:

	Number Of Warrants	Weighted Average Exercise Price
		\$
Balance - October 31, 2006	3,950,000	0.55
Issued on private placement	4,360,714	0.66
Issued upon the exercise of broker option	391,100	0.55
Broker warrants	123,998	0.75
Expired	(4,341,100)	0.55
Balance - October 31, 2007	4,484,712	0.66
Broker warrants	240,000	0.35
Exercised	(135,000)	0.50
Expired	(123,998)	0.75
Balance - October 31, 2008	4,465,714	0.65

The following share purchase warrants (convertible to an equivalent number of common shares) were outstanding at October 31, 2008:

Number Of Warrants	Exercise Price	Expiry Date
	\$	
2,300,000	0.80	November 17, 2008
1,925,714	0.50	October 5, 2009
240,000	0.35	March 14, 2010

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6. Contributed Surplus

The Company's contributed surplus is comprised of the following:

	2008	2007
	\$	\$
Balance, Beginning Of Year	2,236,730	1,579,357
Stock-based compensation	431,682	817,594
Stock options and broker warrants exercised	(26,765)	(160,221)
Balance, End Of Year	2,641,647	2,236,730

7. Stock Option Plan and Stock-Based Compensation

The Company, in accordance with the policies of the TSX Venture Exchange, has a stock option plan in place under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

Pursuant to the option plan, options granted in respect of investor relations activities are subject to vesting restrictions such that one-quarter of the options vest three months from the date of grant and in each subsequent three-month period thereafter such that the entire option will have vested twelve months after the award date. Vesting restrictions may also be applied to certain other options grants, at the discretion of the directors.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number Of Options	Weighted Average Exercise Price
		\$
Balance - October 31, 2006	3,440,000	0.46
Options granted	1,635,000	0.59
Options exercised	(245,000)	(0.13)
Options expired and forfeited	(115,000)	(0.10)
Balance - October 31, 2007	4,715,000	0.53
Options granted	1,029,500	0.52
Options exercised	(135,000)	(0.17)
Options expired and forfeited	(45,000)	(0.62)
Balance - October 31, 2008	5,564,500	0.54

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7. Stock Option Plan and Stock-Based Compensation (Cont'd)

The following stock options were outstanding and exercisable at October 31, 2008 (Note 16):

Range Of Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life years	Weighted Average Exercise Price \$	Options Exercisable	Weighted Average Exercise Price \$	
0.26 – 0.36	1,099,500	4.16	0.34	1,049,500	0.34	
0.37 – 0.46	560,000	1.72	0.39	520,000	0.39	
0.47 – 0.56	1,955,000	1.64	0.53	1,955,000	0.53	
0.57 – 0.66	480,000	0.25	0.61	480,000	0.61	
0.67 – 0.76	1,370,000	3.67	0.72	1,370,000	0.72	
0.86 – 0.99	100,000	3.43	0.99	100,000	0.99	
0.26 – 0.99	5,564,500	2.56	0.54	5,474,500	0.54	

The following stock options were outstanding and exercisable at October 31, 2007:

Range Of Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life years	Weighted Average Exercise Price \$	Options Exercisable	Weighted Average Exercise Price \$	
0.15 – 0.29	125,000	0.89	0.15	125,000	0.15	
0.30 – 0.44	1,085,000	3.73	0.37	1,085,000	0.37	
0.45 – 0.59	1,975,000	2.64	0.53	1,975,000	0.53	
0.60 – 0.74	1,430,000	3.21	0.67	1,430,000	0.67	
0.75 – 0.99	100,000	4.43	0.99	100,000	0.99	
0.15 – 0.99	4,715,000	3.09	0.54	4,715,000	0.54	

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2008	2007
Expected stock price volatility	99%	118%
Risk-free interest rate	3.32%	4.12%
Expected dividend yield	-	-
Expected life of options	5 years	5 years

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8. Non-Cash Transactions

During the year ended October 31, 2008, the Company issued 250,000 (2007 – 250,000) shares in respect of option payments for resource properties, with a fair value of \$76,000 (2007 - \$164,000). The Company issued 50,000 (2007 – nil) shares in respect of a mineral claim payment, with a fair value of \$16,500 (2007 - \$nil).

Total compensation expense recognized for stock options granted during the year was \$396,417 (2007 - \$795,846). Stock-based compensation of \$44,919 (2007 - \$174,677) was capitalized to resource properties for options granted and \$351,498 (2007 - \$621,169) was expensed to operations for options granted to directors and employees of the Company. The Company also recorded a share issuance cost of \$35,266 (2007 - \$21,748) in respect of broker warrants issued, as described in Note 5(b).

9. Related Party Transactions

The following is a summary of related party transactions and balances for the years ended October 31, 2008 and 2007, not disclosed elsewhere in the financial statements:

- (a) Management fees of \$96,000 (2007 - \$96,000) were incurred from a company controlled by a director in common. These fees were recorded at their exchange amount, which is the amount agreed upon by the transacting parties on terms and conditions similar to non-related entities.
- (b) Accounts payable at October 31, 2008 includes \$2,485 (2007 - \$Nil) due to a company controlled by a director in common.
- (c) Stock-based compensation includes stock options granted to directors recorded at a fair value of \$306,480 (2007 - \$543,295).

10. Income Taxes

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2008	2007
Canadian statutory income tax rate	31.60%	34.12%
	\$	\$
Income tax recovery at statutory rate	236,174	330,733
Non-deductible items and timing differences for tax purposes:		
Stock-based compensation expense	(111,073)	(211,943)
Resource properties	(23,627)	(18,677)
Expiry of losses	(33,528)	-
Share issuance costs	37,891	43,033
Reduction in valuation allowance	-	165,920
Rate change from prior year to current year	174,916	-
Other	(261,236)	-
Difference between current and future rate	82,181	-
Income Tax recovery	101,698	309,066

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10. Income Taxes *(Cont'd)*

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at October 31, 2008 and 2007 are presented below:

	2008	2007
	\$	\$
Net operating loss carry-forwards	450,223	488,640
Capital loss carry-forwards	30,678	41,869
Resource properties	(1,360,732)	(1,053,417)
Equipment	9,470	11,242
Share issuance costs	79,612	118,501
Net future income tax liability	(790,749)	(393,165)

The Company has approximately \$1,801,000 of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

	\$
2009	104,000
2010	114,000
2014	179,000
2015	242,000
2026	273,000
2027	414,000
2028	475,000
	1,801,000

The Company also has certain allowances in respect of resource development and exploration costs of approximately \$5,210,000 which, subject to certain restrictions, are available to be offset against future taxable income.

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11. Segmented Information

(a) Industry Information

The Company operates in one reportable operating segment, being the acquisition, exploration and development of resource properties.

(b) Geographic Information

The Company's property and equipment in geographic locations are as follows:

	2008	2007
	\$	\$
Canada	10,667,064	7,771,441
U.S.A.	3,234,388	2,768,213
	<u>13,901,452</u>	<u>10,539,654</u>

12. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable - other, reclamation deposit, and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values due to their short term maturities, unless otherwise noted.

13. Management of Capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties. The Company considers as its capital its shareholders' equity.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of certain of its assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors'.

There are no external restrictions on management of capital.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments. When utilized, these instruments are selected with regard to the expected timing of expenditures from continuing operations. The Company currently has sufficient capital resources to meet its planned operations and administrative overhead expenses through its current operating period. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

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14. Financial Instruments Risk Exposure and Management

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Capital Risk Management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in the shareholder's equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As of October 31, 2008 the Company does not have any long-term debt and is not subject to externally imposed capital requirements.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, reclamation deposits, and accounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents, and reclamation deposits with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents are held with major Canadian based financial institutions. The reclamation deposit is also held at a major Canadian based financial institution.

(d) Currency Risk

The Company's operations are in Canada and the United States. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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14. Financial Instruments Risk Exposure and Management *(Cont'd)*

(e) Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are generally held with large financial institutions

15. Commitments

The Company is required to make certain cash payments and to issue shares to maintain its resource properties, as described in Note 3.

16. Subsequent Events

- (a) The Company issued 1,080,000 flow-through common shares at \$0.12 per share for gross proceeds of \$129,600. The shares plus 64,800 broker warrants are subject to a hold period expiring March 4, 2009.
- (b) The Company issued 3,500,000 flow-through common shares at \$0.12 per share for gross proceeds of \$420,000. The shares, plus 210,000 broker warrants are subject to a hold period expiring April 3, 2009.
- (c) The Company issued 2,040,000 flow-through common shares at \$0.12 per share for gross proceeds of \$244,800. The shares plus 120,000 broker warrants are subject to a hold period expiring April 17, 2009.
- (d) Cameco Corporation (Note 3 (a)(i)) was deemed to have acquired a 65% interest in certain Michigan mineral rights within a 56 square mile area of interest.
- (e) The Company earned its 75% interest in the 6,960 hectare Mineral Creek Property by making final cash payment of \$50,000 and issuing 100,000 common shares.
- (f) Under the terms of its Stock Option Plan, the Company granted incentive stock options to acquire 855,000 common shares at \$0.13 per share, expiring February 9, 2014.
- (g) On November 17, 2008, 2,300,000 warrants at exercise price of \$0.80 expired unexercised.
- (h) On January 29, 2009, the British Columbia provincial government approved the Company's Mining Exploration Tax Credit claim of \$292,441, relating to the fiscal year ending October 31, 2006. The full amount claimed, plus interest, was received on February 13, 2009.

17. Comparative Figures

Certain figures from the previous year have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously-reported results.

BITTERROOT RESOURCES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the period ended October 31, 2008

As of February 25, 2008

SUMMARY OF ACTIVITIES

In the year ended October 31, 2008, the majority of Bitterroot Resources Ltd.'s Canadian exploration expenditures were on drilling and associated costs on the Mineral Creek, Big Southeaster and GK projects in British Columbia. In Michigan, the majority of exploration expenditures were for drilling, consulting and professional costs incurred on the Cameco uranium joint venture. Exploration expenditures in the year, excluding recoveries and acquisition costs, were \$4,084,620. Funding from Cameco Corporation contributed \$436,596 to Bitterroot's working capital during the period, while expenses (net of stock-based compensation and resource property investigation costs) were \$340,401.

INTRODUCTION

Bitterroot Resources Ltd. is a mineral resource company engaged directly and indirectly through its wholly-owned subsidiaries, (collectively referred to herein as "the Company" or "Bitterroot"), in the acquisition and exploration of mineral properties. On Vancouver Island, BC, the Company currently owns a 75 percent interest in the Mineral Creek gold property near Port Alberni, BC. Bitterroot is also earning a 100 percent interest in the adjoining Big Southeaster gold/base metals project. In southern BC, the Company owns a 100 percent interest in the GK gold project and is currently earning 100 percent interests in the SPN (base metals) and North Brenda (Mo/Cu/Au) projects. In Michigan, Bitterroot's wholly-owned subsidiary owns recorded mineral title interests covering approximately 363 square miles in the Upper Peninsula. Under the terms of an option/joint venture agreement with a US subsidiary of Cameco Corporation, Cameco has earned a 65% interest in a 56 square-mile area of interest. The Company also currently holds leases over 8,734 acres of state-owned mineral rights, most of which are subject to the Cameco joint venture.

During and subsequent to the year ended October 31, 2008, commodity prices and global equity markets declined significantly. The Company is exposed to commodity price and equity market risk due to the cyclical nature of the mineral exploration business. Management currently seeks to minimize commodity risk by exploring for a number of different mineral commodities (uranium, coal, gold, copper, zinc, molybdenum) and seeks to minimize political risk by operating in road-accessible locations in Canada (southern BC and Vancouver Island) and the United States of America (Upper Peninsula of Michigan).

The following Management Discussion and Analysis (MD&A) should be read in conjunction with Bitterroot Resources Ltd.'s consolidated audited financial statements for the year ended October 31, 2008 and the audited annual consolidated financial statements and MD&A for the year ended October 31, 2007. This information and exploration results are presented in news releases available on www.sedar.com or on the Company's website (www.bitterrootresources.com).

OVERALL PERFORMANCE

Results of Operations

Mineral Creek Gold Project, British Columbia

Bulk Sample - In October 2008, Bitterroot and Mineral Creek Ventures Inc., the company's partner and bulk sample project operator, took delivery of crushing equipment with a capacity of approximately 1.35 tonnes per hour. In December 2008, 24 ounces of gold was sold and Bitterroot received C\$12,146 for its 50 percent share of the proceeds. During and subsequent to the year end, Mineral Creek crushed approximately 200 additional tonnes of mineralized rock. This material will be subject to grinding in a recently-purchased ball mill and processed by gravity techniques to produce gold concentrates. The crushing and grinding system is expected to sustain significantly higher throughput and gold production in 2009. Processing is expected to resume in the second quarter of 2009, with mining resuming when snow conditions allow vehicular access to the Linda zone. Bitterroot and Mineral Creek will share the costs and proceeds from the first 2,500 tonnes of material mined from the Linda zone on a 50/50 basis, with the next 2,500 tonnes costs and proceeds shared on a 55% Bitterroot – 45% Mineral Creek basis.

Exploration – Subsequent to the year-end, Bitterroot increased its ownership in the Mineral Creek property to 75 percent. Bitterroot earned its 75 percent interest in the 6,960 hectare (17,200 acre) Mineral Creek property by completing over C\$2,000,000 of exploration expenditures, making cash payments totaling C\$260,000 and issuing 650,000 common shares to the vendor over a four year period.

During calendar 2008, the Company's drilling contractor completed 6,454 metres of drilling in 28 holes. Surface prospecting resulted in the discovery of the Ember vein, located approximately 120 metres south of, and striking approximately parallel to the Lower Linda vein. Drilling intersected a 1.25 metre core interval which grades 283 grams gold/tonne (8.28 ounces gold/ton), including one 0.35 metre (1.15 feet) interval which returned 998 grams gold/tonne (29.1 ounces gold/ton - detailed drilling results are summarized in the Company's news release dated December 9, 2008). The high-grade Ember vein has been intersected along a strike length of approximately 100 metres and has an apparent dip extent of approximately 100 metres. The Ember vein and the nearby Lower Linda vein are both open along strike and down dip. Additional high-grade veins have been intersected and will be drilled in 2009. Drilling will resume in the spring of 2009.

In August and early September 2008, a 360 line-kilometre VTEM airborne geophysical survey was flown over parts of the Mineral Creek and Big Southeaster properties. The survey has provided magnetic and electromagnetic data which has defined additional gold and base metals targets.

In 2009, Bitterroot and Mineral Creek plan to;

1. continue exploring the high-grade Ember and Linda veins with a program of close-spaced drilling designed to establish a resource compliant with NI 43-101 reporting standards,

2. continue bulk sampling, processing and recovering gold from mineralized vein material from the Linda and other veins under existing permits which allow for extraction of up to 5,500 tonnes of material,
3. initiate the acquisition of permits to mine and process, by gravity-based recovery techniques, larger tonnages of high-grade gold-bearing vein material,
4. subject to financing, drill-test additional targets identified by previous drilling, prospecting and recently completed VTEM airborne geophysical surveys.

In the year ended October 31, 2008, Bitterroot spent \$1,326,150 on the Mineral Creek project, net of stock-based compensation and recoveries, mainly on drilling and geological consulting. Mr. P.E. Michael Becherer, P. Geo is the Qualified Person responsible for the design and implementation of exploration programs on the Mineral Creek project.

Michigan Uranium Joint Venture

During and subsequent to the year ended October 31, 2008, Bitterroot and Cameco Corporation completed a 17-hole, 2,360-metre core drilling program. Drilling tested several basement-hosted conductive (graphitic) zones which are unconformably overlain by Proterozoic-age sandstones. Results from the drilling program are currently being compiled and analyzed. Since the year-end, Cameco has completed earning a 65 percent interest in Bitterroot's mineral rights within a 56 square-mile area of interest. Bitterroot is also independently exploring base metals targets outside of the Cameco area of interest.

In the year ended October 31, 2008, Bitterroot spent \$900,098 on its Michigan projects, net of stock-based compensation, mainly on consulting and professional costs. Cameco refunded approximately \$436,596 of exploration costs incurred during the period. Mr. Jeffrey Lynott, P.G. is the Qualified Person responsible for the design and implementation of exploration programs on the Michigan Uranium joint venture.

North Brenda Copper/Molybdenum/Gold Project, British Columbia

The North Brenda property hosts Mo/Cu mineralization adjacent to the past-producing Brenda Mine (177 million tonnes grading 0.043% Mo and 0.169% Cu). In June, infill IP survey lines and additional soil sampling were completed on the NNE-trending Brenda mineralized trend. This work has confirmed the presence of a 1.5 kilometre-long target area defined by highly anomalous molybdenum and copper-in-soil and by an IP chargeability anomaly which is coincident with the strongest soil geochemical values. The 2007 drilling program tested the flanks of this target, but in light of the new IP and soil geochemical data, several high quality geochemical/geophysical targets remain untested.

In addition to the Mo/Cu-mineralized area adjoining the Brenda Mine, three other areas with anomalous gold-in-soil on the northern part of the North Brenda property were explored with infill soil geochemical surveys and geological mapping during the quarter. Trenching of these gold targets is planned in 2009.

In the year ended October 31, 2008, Bitterroot spent \$338,044 on the North Brenda project, net of stock-based compensation, mainly on geological consulting, geochemical surveys and geophysical surveys. Mr. Charles Greig, P. Geo is the Qualified Person responsible for the design and implementation of exploration programs on the North Brenda project.

SPN Copper/Gold Project, British Columbia

The SPN property has potential for volcanogenic massive sulphide mineralization similar to that found elsewhere on the Adams Plateau. Field work in 2008 included the cutting of a 45 line-km grid, soil sampling, prospecting and geologic mapping. In August, a 300 line-kilometre VTEM airborne geophysical survey was flown over the SPN property. The survey has provided magnetic and electromagnetic data which will help identify trenching and drilling targets. Analysis of over 1,000 soil samples has been deferred. No field work is currently planned on the SPN project in 2009 due to funding constraints.

In the year ended October 31, 2008, Bitterroot spent \$304,081 on the SPN project, net of stock-based compensation, mainly on geological consulting, geochemical analyses and geophysical surveys. Mr. Charles Greig, P. Geo is the Qualified Person responsible for the design and execution of exploration programs on the SPN project.

Big Southeaster Gold/VMS Project, British Columbia

In August and early September, a 360 line-kilometre VTEM airborne geophysical survey was flown over part of the Big Southeaster property and adjacent parts of the Mineral Creek property. The survey has provided magnetic and electromagnetic data which has defined additional gold and base metals targets.

Bitterroot's drilling contractor completed 40 diamond-drill holes totaling 11,286 metres on the Big Southeaster property between December 2006 and December 2007. Of these holes, 22 (totaling 6,679 metres) tested a gold-bearing zone associated with the Mineral Creek fault zone in the Lizard Lake area and 18 holes (totaling 4,607 metres) tested a cluster of polymetallic copper/zinc/gold showings in the Regina area. Studies have been done to determine vectors towards potentially economic concentrations of volcanogenic massive sulphide mineralization in the highly prospective Sicker Group stratigraphy. Studies have also identified additional targets in the shear-related gold zone associated with the Mineral Creek fault. No field work is currently planned on the Big Southeaster project in 2009 due to funding constraints.

In the year ended October 31, 2008, Bitterroot spent \$477,573 on the Big Southeaster project, net of stock-based compensation and recoveries, mainly on drilling, geophysical surveys and geological consulting. Mr. John Wilson, P. Geo is the Qualified Person responsible for the design and implementation of the exploration program on the Big Southeaster project.

GK Gold/Silver Project, British Columbia

Drilling on the Blue Jay zone intersected sulphide mineralization in all 13 drill holes (2,594 metres) completed. The mineralization occurs both in highly fractured silicified, tuffaceous volcanic rocks and in diorite dykes, near the contacts of the two rock types. Several drill holes in the Blue Jay zone returned intercepts averaging 1 to 2 grams Au/tonne over widths between 3 to 10 metres, including narrower intervals of somewhat higher grade, such as 7.21 grams Au/tonne over 1.8 metres. Drilling on the Hornet zone, located approximately 5 kilometres north of Blue Jay, also intersected sulphide mineralization in four holes (746 metres) drilled, within a similar geologic setting. The drill holes in the Hornet zone returned more consistent and higher grades than those in the Blue Jay zone. The best interval returned 1.47 grams Au/tonne over 13.9 metres, which included 7.13 grams Au/tonne over 2.6 metres. Additional soil and stream silt geochemical sampling on the Hornet zone was done in June. The results of this work have been encouraging. No field work is currently planned on the GK project in 2009 due to funding constraints. During the year, the Company made its final \$25,000 payment to the vendors and now owns 100% of the GK claims.

In the year ended October 31, 2008, Bitterroot spent \$740,204 on the GK Project, net of stock-based compensation and recoveries, mainly on drilling and geological consulting. Mr. Charles Greig, P. Geo is the Qualified Person responsible for the design and implementation of exploration programs on the GK project. Analyses are done at ALS Chemex in North Vancouver, BC, by ICP-AES and fire assay/AA.

Saskatchewan/Manitoba Coal Project

Following public disclosure of a coal discovery in eastern Saskatchewan by a third party in April 2008, Bitterroot's management initiated land acquisition activities in Saskatchewan and western Manitoba. The Company submitted applications for coal exploration permits in four areas. Following the subsequent major decline in junior resource equity markets, management withdrew three applications in Manitoba to eliminate the associated near-term exploration funding obligations and conserve the Company's cash reserves. The Mines Branch of Manitoba's Department of Science, Technology, Energy and Mines have since refunded Bitterroot's deposits totalling \$663,068.

Bitterroot retains Coal Prospecting Permits covering 1,248 hectares (3,084 acres) in eastern Saskatchewan. These permits are located approximately 25 kilometres east of Hudson Bay, SK and cover road-accessible occurrences of coal-bearing strata of the Lower Cretaceous Mannville Group. The Company's management is currently reviewing its options for exploring these lands.

In the year ended October 31, 2008, Bitterroot spent \$55,940 on the Saskatchewan/Manitoba Coal project, net of stock-based compensation, mainly on geological consulting and land acquisition costs. These costs were written off at year-end.

SELECTED ANNUAL INFORMATION

The following table contains selected financial data for the previous three years ending October 31, 2008. Financial information is prepared according to Canadian GAAP and is reported in Canadian dollars.

	October 31, 2008	October 31, 2007	October 31, 2006
Interest Income	87,506	125,461	38,563
Net Loss	(682,539)	(914,582)	(704,211)
Loss per-share	(0.01)	(0.02)	(0.02)
Loss per-share, Fully diluted	(0.01)	(0.02)	(0.02)
Net Income (loss)	(645,689)	(660,256)	(521,934)
Total Assets	15,595,900	13,986,139	8,203,082
Long-term financial Liabilities	nil	nil	nil
Cash dividends/share	nil	nil	nil

Revenues fluctuate annually based on the amount of interest income earned from the unspent proceeds of equity financings or recoveries. Loss before discontinued operations and extraordinary items in 2008 and 2007 fluctuates mainly due to variations in property investigation costs (2008- \$78,146, 2007- \$7,264) and measurements of stock-based compensation (2008- \$351,498, 2007- \$621,169), which are included in expenses. Excluding stock-based compensation, 2008 losses (\$418,547) were relatively unchanged from 2007 (418,874). Contributing factors were foreign exchange gains (2008- gain of \$19,263, 2007- loss of \$39,927), which was offset by increased property investigation costs. The remaining expenses remained relatively constant from 2008 to 2007. Total assets have grown annually due to capitalization of exploration expenditures in excess of property write-offs.

Financial Condition

At October 31, 2008, Bitterroot had working capital of \$1,277,505, which included accounts receivable of \$216,457 due from Cameco, \$663,068 due from the province of Manitoba, \$79,507 due from GST refunds and \$311,951 due from British Columbia Mineral Exploration Tax Credits. All of these amounts were received subsequent to the year end. Resource properties had a book value of \$13,887,432 compared to \$10,520,700 at the beginning of the year and \$13,109,319 at the beginning of the Company's fourth quarter. For the year ended October 31, 2008, cash outflows exceeded cash inflows by \$2,712,746, which when combined with the

\$3,094,703 cash balance at the beginning of the year, resulted in a year-end cash position of \$381,957. Cash outflows were comprised principally of resource property expenditures of \$4,140,701(excluding recoveries and stock-based compensation) and operating expenses of \$413,613 (net of stock-based compensation and amortization).

Summary of Financial Results

During the year ended October 31, 2008, the Company had a loss before income tax adjustments of \$747,387, compared to a loss of \$969,322 in the prior year. The reduced loss during the period was mainly attributable to lower stock-based compensation charges plus foreign exchange gains, which was partially offset by increased property investigation expenses. Excluding stock-based compensation, property investigation expenses and amortization charges, the Company's operating expenses for the year were \$335,467, which is approximately 17% lower than operating expenses incurred during the same period of the previous year. Fluctuating C\$/US\$ exchange rates resulted in a 2008 foreign exchange gain, realized on US\$ cash holdings, of \$19,263 (2007- forex loss of \$39,927). The rapid 20% decline of the C\$ vs. the US\$ in October 2008 served to increase the Company's exploration costs in Michigan, as the decline in the Canadian dollar coincided with the commencement of a three-month drilling program.

Changes in Accounting Policies

Effective November 1, 2007, the Company adopted the following accounting standards updates issued by the Canadian Institute of Chartered Accountants ("CICA").

(i) Capital Disclosures - Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(ii) Financial Instruments Disclosures and Presentation – Sections 3862 & 3863

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Bitterroot's management expects that these changes will have no significant effect on the Company's financial statements.

New Accounting Pronouncements

Effective November 1, 2008, the Company is required to adopt the following accounting standards updates issued by the CICA:

(i) Assessing Going Concern – Section 1400

The Accounting Standards Board amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(ii) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064 which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, Revenue and Expenditures in the Pre-Operating Period" will be withdrawn.

The Company is currently assessing the impact of these new accounting standards on the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth a comparison of revenues and expenses for the previous eight quarters ending with October 31, 2008. Financial information is prepared according to Canadian GAAP and is reported in Canadian dollars.

	Quarter Ended Oct 31, 2008	Quarter Ended July 31, 2008	Quarter Ended April 30 2008	Quarter Ended Jan 31 2008
Interest Income	28,832	16,046	19,240	23,388
Income (loss) for the period	(647,231)	(279,860)	(184,048)	465,450
General and administrative	(79,090)	(140,447)	(131,672)	(67,338)
Stock-based compensation	(142,166)	(145,439)	(63,892)	-
Write-off of resource property	(64,850)	-	-	-
Net Earnings (Loss) per share Basic and diluted	(0.01)	(0.00)	(0.00)	0.01

	Quarter Ended Oct 31, 2007	Quarter Ended July 31, 2007	Quarter Ended April 30 2007	Quarter Ended Jan 31 2007
Interest income	31,445	31,939	35,567	26,510
Income (loss) for the period	(665,779)	(88,593)	(169,722)	263,838
General and administrative	(100,908)	(119,603)	(129,906)	(68,457)
Stock-based compensation	(143,055)	-	(82,322)	(395,792)
Write-off of resource property	(52,533)	(929)	(634)	(644)
Net Earnings (Loss) per share Basic and diluted	(0.01)	(0.00)	0.00	0.01

LIQUIDITY

During the year ended October 31, 2008, the Company received \$21,000 (before share issue costs) from the final tranche of a private placement of 2,060,714 units priced at \$0.35 per unit which was initiated in the previous financial year and \$1,783,950 from a private placement of 5,097,000 flow through common shares priced at \$0.35 per share which was completed in the quarter ended July 31, 2008. The Company also received \$68,925 from the exercise of 135,000 share purchase warrants and \$15,005 from the exercise of stock options during the third quarter.

The Company's working capital at October 31, 2008 was \$1,277,505, compared to working capital of \$3,125,383 at October 31, 2007. Current liabilities were \$401,143, consisting of accounts payable incurred in the normal course of the mineral exploration business, plus \$55,000

accrued for accounting/audit fees and \$25,200 for unpaid management fees. Subsequent to the end of the year, the management fees were paid.

At October 31, 2008, there were 4,465,714 share purchase warrants outstanding, which are exercisable at prices between \$0.35 and \$0.80. If exercised, the outstanding warrants would generate proceeds to the Company of \$2,886,857. There were also 5,564,500 incentive stock options outstanding, which if exercised would provide proceeds to the Company of \$3,004,830. Subsequent to the end of the year, on November 17, 2008, 2,300,000 warrants with a \$0.80 exercise price expired, unexercised.

Bitterroot has sufficient cash reserves to fund its operating expenses in 2009, plus this year's planned exploration programs on the Mineral Creek and North Brenda gold projects in British Columbia. In Michigan, subsequent to October 31, 2008, Cameco Corporation incurred expenditures sufficient to earn a 65 percent interest in a 56 square-mile area of interest. Within this area of interest, Cameco and Bitterroot are in the process of formalizing a joint venture arrangement and are now funding costs on a pro-rata 65/35 basis. Bitterroot has sufficient cash reserves to provide funding for its share of currently planned 2009 expenditures. In the longer term, Bitterroot's ability to meet its ongoing financial obligations will be determined by management's success in acquiring mineral properties, obtaining equity financing, negotiating joint venture arrangements and facilitating the exercise of outstanding share purchase warrants and options. There can be no assurance that the Company will be able to continue to raise funds, in which case it may be unable to meet its obligations. Should Bitterroot be unable to realize its assets and discharge its liabilities in the normal course of business, the realizable value of its assets may be materially less than the amounts recorded on the balance sheets. Details of funding commitments on the Company's resource properties are disclosed in Note 3 of the Consolidated Financial Statements for the year ended October 31, 2008.

FOURTH QUARTER

During the fourth quarter, the Company's financial condition was not materially affected by extraordinary items or year-end adjustments. During the quarter, the Company announced a \$129,000 private placement of flow-through shares prices at \$0.12, which closed subsequent to the year end. Options to purchase 174,500 common shares at \$0.26, expiring September 17, 2013 were granted to directors, an employee and a consultant. In late September, drilling started on the Cameco joint venture in Michigan and stopped in late December 2008. On the Mineral Creek gold project, exploration drilling was halted due to the temporary depletion of flow-through funds. Processing of material from the bulk sample was suspended in early November, due to the onset of winter weather. Airborne geophysical surveys (VTEM) were conducted on the SPN, Mineral Creek and Big Southeaster properties. Funds were consumed in the normal course of managing and executing these mineral exploration programs. Cash balances temporarily decreased by \$1,702,098 during the fourth quarter as exploration or land acquisition programs were occurring simultaneously at Mineral Creek, SPN, Big Southeaster (mainly funded by flow-through financing), in Michigan (refunded by Cameco) and in Manitoba (refunded subsequent to the end of the quarter). The carrying value of the Company's resource properties increased by \$778,113 during the fourth quarter and shares outstanding increased by 300,000. The Company

wrote off \$64,850 of resource property expenditures on the Saskatchewan/Manitoba coal project during the quarter.

RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions and balances for the years ended October 31, 2008 and 2007,

- (a) Management fees of \$96,000 (2007 - \$96,000) were incurred from a company controlled by a director in common. These fees were recorded at their exchange amount, which is the amount agreed upon by the transacting parties on terms and conditions similar to non-related entities.
- (b) Accounts payable at October 31, 2008 includes \$2,485 (2007 - \$Nil) due to a company controlled by a director in common.
- (c) Stock-based compensation includes stock options granted to directors recorded at a fair value of \$306,480 (2007 - \$543,295).

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Outstanding Share Data

- a) Authorized Capital:
100,000,000 common shares without par value
- b) Number and Recorded Value for shares Issued and Outstanding as at October 31, 2008 was 58,594,955 common shares with a recorded value of \$18,453,321.
As of the date of this report there are 65,364,955 common shares outstanding.
- c) Options outstanding at October 31, 2008

Number of Options	Exercise Price	Expiry Date
480,000	0.61	January 29, 2009
650,000	0.53	May 24, 2009
180,000	0.53	July 5, 2009
500,000	0.39	March 17, 2010
1,125,000	0.53	April 4, 2011
925,000	0.70	January 11, 2012
100,000	0.99	April 14, 2012
585,000	0.35	September 14, 2012
340,000	0.36	February 7, 2013
60,000	0.40	June 9, 2013

445,000	0.76	June 25, 2013
174,500	0.26	September 17, 2013

d) Warrants outstanding at October 31, 2008

Number of Warrants	Exercise Price	Expiry Date
2,300,000	\$0.80	November 17, 2008
1,925,714	\$0.50	October 5, 2009
240,000	\$0.35	March 14, 2010

Subsequent to the end of the fourth quarter;

- (a) The Company issued 1,080,000 flow-through common shares at \$0.12 per share for gross proceeds of \$129,600. The shares plus 64,800 broker warrants are subject to a hold period expiring March 4, 2009
- (b) The Company issued 3,500,000 flow-through common shares at \$0.12 per share for gross proceeds of \$420,000. The shares, plus 210,000 broker warrants are subject to a hold period expiring April 3, 2009.
- (c) The Company issued 2,040,000 flow-through common shares at \$0.12 per share for gross proceeds of \$244,800. The shares plus 120,000 broker warrants are subject to a hold period expiring April 17, 2009.
- (d) Cameco Corporation was deemed to have acquired a 65% interest in certain Michigan mineral rights within a 56 square mile area of interest.
- (e) The Company earned its 75% interest in the 6,960 hectare Mineral Creek Property by making the final cash payment of \$50,000 and issuing 100,000 common shares.
- (f) Under the terms of its Stock Option Plan, the Company granted incentive stock options to acquire 855,000 common shares at \$0.13 per share, expiring February 9, 2014.
- (g) On November 17, 2008, 2,300,000 warrants at exercise price of \$0.80 expired unexercised.
- (f) On January 29, 2009, the British Columbia provincial government approved the Company's Mining Exploration Tax Credit claim of 292,441, relating to the fiscal year ending October 31, 2006. The full amount claimed, plus interest, was received on February 13, 2009.

Stock-based Compensation

Total compensation expense recognized for stock options granted during the year ended October 31, 2008 was \$351,498 (2007 - \$621,169).

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information. Our auditors have not reviewed the contents of this MD&A.

Additional information on the Company can be found on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This document contains statements about expected or anticipated future events and financial results that are forward-looking in nature and as a result, are subject to certain risks and uncertainties, such as general economic, market and business conditions, regulatory processes and actions, technical issues, new legislation, competitive conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and the company's ability to execute and implement its future plans. Actual results may differ materially from those projected by management. For such statements, we claim the safe harbour for forward-looking statements within the meaning of the Private Securities Legislation Reform Act of 1995. The TSX Venture Exchange does not accept responsibility for the adequacy or accuracy of this document.